Audited Project Financial Statements

Project Number: 50016-001
Loan Number: 3560-INO
Period covered: 1 January 2017 to 31 December 2017

Indonesia: Sustainable Energy Access in Eastern Indonesia—Electricity Grid Development Program

Prepared by Perusahaan Listrik Negara

For the Asian Development Bank
Date received by ADB: 26 June 2018

PERUSAHAAN PERSEROAN (PERSERO)
PT PERUSAHAAN LISTRIK NEGARA

ADB Loan 3560-INO: Sustainable Energy Access in Eastern Indonesia – Electricity Grid Development Program

Special-Purpose Statements of Program Expenditures and Financing
For the Year Ended December 31, 2017

PERUSAHAAN PERSEROAN (PERSERO) PT PERUSAHAAN LISTRIK NEGARA
ADB Loan 3560-INO: Sustainable Energy Access in Eastern Indonesia –
Electricity Grid Development Program
Special-Purpose Statements of Program Expenditures and Financing

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Amir Abadi Jusuf, Aryanto, Mawar & Rekan
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Number : R/561.AGA/sat.1/2018

Independent Auditors' Report

The Shareholders, Boards of Commissioners and Directors
Perusahaan Perseroan (Persero) PT Perusahaan Listrik Negara

We have audited the Special-Purpose Statements of Program Expenditures and Financing of the Asian Development Bank ("ADB") Loan 3560-INO: Sustainable Energy Access in Eastern Indonesia - Electricity Grid Development Program (the "special-purpose reports") of Perusahaan Perseroan (Persero) PT Perusahaan Listrik Negara (the "Company") as of and for the year ended December 31, 2017 and the basis of accounting and other explanatory information of the special-purpose reports. The special-purpose reports have been prepared by management of the Company on the basis of accounting described in Note 2 of the special-purpose reports for the purpose of complying with section 4.02 of Loan Agreement of ADB Loan 3560-INO between ADB and the Company.

Management's responsibility for the special-purpose reports
Management is responsible for the preparation of the special-purpose reports in accordance with the basis of accounting described in Note 2 of the special-purpose reports, and for such internal control as management determines is necessary to enable the preparation of the special-purpose reports that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility
Our responsibility is to express an opinion on the special-purpose reports based on our audit. We conducted our audit in accordance with Standards on Auditing established by the Indonesian Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the special-purpose reports are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the special-purpose reports. The procedures selected depend on the auditors' judgement, including the assessment of the risk of material misstatement of the special-purpose reports, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the special-purpose reports in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the special-purpose reports.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the special-purpose reports as of and for the year ended December 31, 2017, are prepared, in all material respects, in accordance with the basis of accounting described in Note 2 of the special-purpose reports.

Basis of accounting and restriction of distribution and use
Without modifying our opinion, we draw attention to Note 2 of the special-purpose reports which describe the basis of accounting. The special-purpose reports are prepared to comply with Section 4.02 of Loan Agreement of ADB Loan 3560-INO between ADB and the Company. As a result, the special-purpose reports may not be suitable for another purpose. Our report is intended solely for the Company and ADB and should not be distributed to or used by parties other than the Company and ADB.

Amir Abadi Jusuf, Aryanto, Mawar & Rekan

Saptoto Agustomo
Public Accountant License Number: AP.0499

Jakarta, May 25, 2018

RSM

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Number : R/131.AAT/sat/2018

Independent Accountant's Report
On the Compliance with the Financial Covenants of the ADB Loan 3560

The Shareholders, Boards of Commissioners and Directors
Perusahaan Perseroan (Persero) PT Perusahaan Listrik Negara

We have examined Perusahaan Perseroan (Persero) PT Perusahaan Listrik Negara (the "Company")'s compliance with the financial covenants requirements contained in the Asian Development Bank ("ADB") Loan 3560-INO: Sustainable Energy Access in Eastern Indonesia - Electricity Grid Development Program, inclusive in the Loan Agreement, dated October 10, 2017, with ADB and the Republic of Indonesia for the year ended December 31, 2017. Management is responsible for the Company's compliance with those requirements. Our responsibility is to express an opinion on the Company's compliance based on our examination.

Our examination was conducted in accordance with standard on assurance engagement established by the Indonesian Institute of Certified Public Accountants and accordingly, include examining, on a test basis, evidence about the Company's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the Company's compliance with specified requirements.

In our opinion, the Company complied, in all material respects, with the financial covenants of the ADB Loan 3560-INO: Sustainable Energy Access in Eastern Indonesia - Electricity Grid Development Program for the year ended December 31, 2017.

As discussed in note 4 of these special-purpose statements of program expenditures and financing, the Company obtained a waiver on November 9, 2017 whereby ADB agreed to waive the financial covenants requirement relating to i) debt service coverage ratio, ii) self-financing ratio, and iii) debt equity ratio, for the year ended December 31, 2017. Our opinion is not modified in the respect of this matter.

This report is intended solely for the Company and ADB and is not intended to be and should not be used by anyone other than the Company and ADB.

Amir Abadi Jusuf, Aryanto, Mawar & Rekan

Saptoto Agustomo
Public Accountant License Number: AP.0499

Jakarta, May 25, 2018

PERUSAHAAN PERSEROAN (PERSERO) PT PERUSAHAAN LISTRIK NEGARA
ADB Loan 3560-INO: Sustainable Energy Access in Eastern Indonesia – Electricity Grid Development Program
Statement of Actual Program Expenditures and Financing
For the Year Ended December 31, 2017
(In thousands of US$, unless otherwise stated)

Description	Notes	Plan Financed (Unaudited) US$	Actual Financed US$	Actual/ Plan Financed (Unaudited) %
By financing disbursement :				
Advance financing				
DLI 4	3a	48,000	48,000	100.00%
DLI 5	3b	48,000	48,000	100.00%
DLI 6	3c	18,000	18,000	100.00%
DLI 7	3d	18,000	18,000	100.00%
DLI 8	3e	18,000	18,000	100.00%
Subtotal for advance financing		150,000	150,000	100.00%
2017				
DLI 1		30,000	--	0.00%
DLI 2		24,000	--	0.00%
DLI 3		12,000	--	0.00%
DLI 4		12,000	--	0.00%
DLI 5		12,000	--	0.00%
DLI 6		6,000	--	0.00%
DLI 7		6,000	--	0.00%
DLI 8		6,000	--	0.00%
Subtotal for 2017		108,000	--	0.00%
Total		**258,000**	**150,000**	**58.14%**

PERUSAHAAN PERSEROAN (PERSERO) PT PERUSAHAAN LISTRIK NEGARA
ADB Loan 3560-INO: Sustainable Energy Access in Eastern Indonesia – Electricity Grid Development Program
Statement of Cumulative Program Expenditures and Financing
As of December 31, 2017
(In thousands of US$, unless otherwise stated)

Description	Notes	December 31, 2017 US$
By financing disbursement :		
DLI 4	3a	48,000
DLI 5	3b	48,000
DLI 6	3c	18,000
DLI 7	3d	18,000
DLI 8	3e	18,000
Total		**150,000**

1. General

On October 10, 2017, PT Perusahaan Listrik Negara (Persero) (the “Company” or the “Borrower”) and the Asian Development Bank (“ADB”) entered into Loan Agreement No. 3560-INO under which ADB agreed to lend to the Borrower from ADB’s ordinary capital resources an amount of US$600,000 to finance for enhancing the quality of life in Indonesian society by the sustainable use of electricity as a key driver of increased economic activity.

The loan is to be guaranteed by the Republic of Indonesia (“Guarantor”) under the terms of the Guarantee Agreement of even date herewith between the Guarantor and ADB. The Loan Agreement effective as of December 14, 2017.

The Company is required to comply with certain covenants, as stated in the Loan Agreement dated October 10, 2017. Among other things, the Company has to comply with financial covenants including (1) self-financing ratio shall be at least 15% from the period beginning January 1, 2017, (2) debt service coverage shall be at least 1.35 times from the period beginning January 1, 2017 to December 31, 2017 and shall be at least 1.5 times for the period beginning January 1, 2018, of its estimated maximum debt service requirements of the Company for any succeeding fiscal year on all its debts including the debt incurred, (3) the ratio of debt to equity shall not be greater than 75 to 25, and the covenant that all proceeds of the loan withdrawn from ADB should be utilized developing the Program as agreed in the ADB Loan No. 3560-INO.

The maturity date of the ADB Loan No. 3560-INO is in May 15, 2037. The last date for disbursement of the ADB Loan No. 3560-INO was on June 30, 2022.

The objective of the Program is to support expanded access to more reliable electricity services for residential, commercial, and industrial customers in the eastern provinces of the Guarantor in Sulawesi and Nusa Tenggara, namely Wilayah Sulawesi Utara, Tengah and Gorontalo; Wilayah Sulawesi Selatan, Tenggara and Barat; Wilayah Nusa Tenggara Timur; and Wilayah Nusa Tenggara Barat.

The Program shall comprise the following result areas:

1. Distribution system strengthening and expansion.
   Under this results area, the Program shall help address the financing needs for the expansion and strengthening of the distribution system and consequently improve electrification rates, reduce overloading and address reliability issues for the local population and businesses.
2. Innovation and institutional capacity enhancement.
   Under this result area, the Program shall support the Borrower’s effort in innovation and strengthen institutional capacity for environmental management and increased efficiency through:
   1. Supporting innovation through pilot-scale smart grid projects;
   2. Expanding the use of digital pre-paid and smart meters to reduce non-technical losses, payment defaults, and servicing costs in remote areas;
   3. Improving the Borrower’s assets and waste management with safe disposal of several years’ backlog of used equipment;
   4. Tracking the timely implementation of distribution system contracts.

The Program shall be completed by 31 December 2021.

Disbursement Linked Indicator (“DLI”) is an indicator set forth in Loan Agreement which the Borrower is required to be achieved in order to withdraw the amount of Loan proceeds allocated in the withdrawal table.

(In thousands of US$, unless otherwise stated)

The annual DLI indicators which know as DLI matrix are as follows:

Disbursement-Linked indicators (DLI)	Baseline and Year	2017	2018	2019	2020	2021
DLI 1: number of PLN customers increased by an average annual rate of at least 5.6% to reach at least 6.99 million customers by 2020	2016 baseline: At least 5.62 million customers	At least 5.90 million customers connected	At least 6.27 million customers connected	At least 6.62 million customers connected	At least 6.99 million customers connected	--
DLI 2: total annual electricity sales increased by an average annual rate of at least 8.5% to reach at least 15,710 GWh by 2020, with an equal or higher growth rate for commercial customers to reach at least 3,234 GWh annual sales by 2020	2016 baseline: Energy sales 11,336 GWh (2,334 GWh to commercial customers)	At least 12,300 GWh, or more of energy sales to customers (at least 2,532 GWh to commercial customers)	At least 13,345 GWh, or more of energy sales to customers (at least 2,747 GWh to commercial customers)	At least 14,480 GWh, or more of energy sales to customers (at least 2,981 GWh to commercial customers)	At least 15,710 GWh, or more of energy sales to customers (at least 3,234 GWh to commercial customers)	--
DLI 3: feeder line permanent interruptions in the distribution system reduced by an average annual rate of at least 5% each year to reach less than 15.82/100 ckm by 2020	2016 baseline: medium voltage feeder permanent interruptions: 19.43/100 ckm	Medium-voltage feeder permanent interruptions less than: 18.45/100 ckm	Medium-voltage feeder permanent interruptions less than: 17.53/100 ckm	Medium-voltage feeder permanent interruptions less than: 16.66/100 ckm	Medium-voltage feeder permanent interruptions less than: 15.82/100 ckm	--
DLI 4: number of distribution transformer unit installed increas by an average annual rate of at least 5.6% each year to reach at least 50.721 by 2020	2016 baseline: 40,788 total distribution transformer units installed	At least 43,072 total distribution transformer units installed	At least 45,484 total distribution transformer units installed	At least 48,031 total distribution transformer units installed	At least 50,721 total distribution transformer units installed	--
DLI 5: additional length of medium-voltage distribution lines installed increased by an average annual rate of at least 5.6% each year to reach at least 58,764 ckm by 2020, with an equal or higher growth rate in Lombok and Flores combined to reach at least 7,388 ckm by 2020.	2016 baseline: 47,256 ckm of medium-voltage distribution lines installed (5,941 ckm in Lombok and Flores combined)	At least 49,902 ckm of medium-voltage distribution lines installed (at least 6,274 ckm in Lombok and Flores combined)	At least 52,697 ckm of medium-voltage distribution lines installed (at least 6,626 ckm in Lombok and Flores combined)	At least 55,648 ckm of medium-voltage distribution lines installed (at least 6,997 ckm in Lombok and Flores combined)	At least 58,764 ckm of medium-voltage distribution lines installed (at least 7,388 ckm in Lombok and Flores combined)	--
DLI 6: Pilot-scale smart grid projects implemented in the last 4 area by 2021	2016 baseline: no smart grid projects that are in line with corporate smart grid roadmap	Smart grid guidelines based on corporate smart grid roadmap issued, pilot project selected	Project design developed, 2 pilot grid projects start procurement	At least 2 more pilot smart grid projects start procurement	At least 2 more pilot smart grid project, operational	At Least 4 pilot smart grid projects operational

(In thousands of US$, unless otherwise stated)

Disbursement-Linked indicators (DLI)	Baseline and Year	2017	2018	2019	2020	2021
DLI 7: operational efficiency and resource optimization enhanced with digital pre-paid meter or smart meters use increased to at least 75% of total customers by 2021	2016 baseline: 48% of total customers use digital pre-paid meters of smart meters	At least 55% of total customers use digital pre-paid meters or smart meters	At least 60% of total customers use digital pre-paid meters or smart meters	At least 65% of total customers use digital pre-paid meters or smart meters	At least 70% of total customers use digital pre-paid meters or smart meters	At least 75% of total customers use digital pre-paid meters or smart meters
DLI 8: asset and waste management improved with at least 90% of used PLN equipmment from the 2016 disposal inventory safely disposed by 2021	2016 baseline: 0 disposal rate. Accumulated used equipment, including hazardous waste and slow procedures for review, approval and disposal	(i) 2016 inventory of used equipment for disposal prepared and approved by PLN (ii) PLN Guidance for asset management (1998) policy revised to accelerate disposal of hazardous waste	(i) 2016 inventory of used equipment for disposal prepared and approved by Ministry of State-Owned Enterprises, (ii) Existing oil spills cleaned in accordance with MoEF regulation No.33/2009. (iii) at least 20% of PLN's used equipment in the 2016 inventory safely disposed	(i) All warehouse equipped with oil containment / protection measures (ii) at least 50% of PLN's used equipment in the 2016 inventory safely disposed	at least 80% of PLN's used equipment in the 2016 inventory safely disposed	at least 90% of PLN's used equipment in the 2016 inventory safely disposed

2. Basis of Accounting of the Special-Purpose Statements of Program Expenditures and Financing

a. Presentation of Statements of Program Expenditures and Financing

The special-purpose statements of program expenditures and financing has been prepared in the format and basis agreed between ADB and the Company which are not intended to be a presentation in conformity with Indonesian Financial Accounting Standards. These special-purpose statements of program expenditures and financing were prepared for the purpose of complying with Section 4.02 of Loan Agreement of ADB Loan 3560-INO between ADB and the Company.

The special-purpose statements of program expenditures and financing are presented in US Dollar (“US$”).

The actual program expenditures financed by the Company denominated in Indonesian Rupiah are translated to US$ using the historical rate of transactions in which the actual program expenditures occured or exchange rate at reimbursement.

b. Basis for Withdrawal from the Loan Account

The withdrawal table sets out the Loan amount available for withdrawal upon the Borrower’s achievement of the corresponding DLI targets as set out in the DLI Matrix. Except as otherwise condition that agreed by ADB, the withdrawal table shall form the basis for withdrawal from the Loan Account. Amount allocated for ADB Financing is as follow:

Indicator	Advance Financing US$	2017 US$	2018 US$	2019 US$	2020 US$	2021 US$	Total US$
DLI 1	--	30,000	30,000	30,000	30,000	--	120,000
DLI 2	--	24,000	24,000	24,000	24,000	--	96,000
DLI 3	--	12,000	12,000	12,000	12,000	--	48,000
DLI 4	48,000	12,000	12,000	12,000	12,000	--	96,000
DLI 5	48,000	12,000	12,000	12,000	12,000	--	96,000
DLI 6	18,000	6,000	6,000	6,000	6,000	6,000	48,000
DLI 7	18,000	6,000	6,000	6,000	6,000	6,000	48,000
DLI 8	18,000	6,000	6,000	6,000	6,000	6,000	48,000
Total	**150,000**	**108,000**	**108,000**	**108,000**	**108,000**	**18,000**	**600,000**

(In thousands of US$, unless otherwise stated)

c. Financing Disbursement

The disbursement is based on the result of verification of DLI matrix by Independent Verification Agency ("IVA"). For withdrawal process, the Borrower prepares withdrawal application and submits it to ADB. Disbursements are recognized based on the Withdrawal Authorization ('WA") issued by ADB.

d. Plan Program Expenditures

The plan program expenditures plan financed by ADB for every region in Sulawesi and Nusa Tenggara are presented based on management estimation.

e. Actual Program Expenditures

Eligible Expenditures means the total expenditures incurred by the Borrower under the Program during its fiscal year minus the expenditures for (i) procurement of goods and service from countries which are not members of ADB, and (ii) any prohibited investment activites provided in Appendix 5 of ADB's Safeguard Policy Statement, incurred by the Borrower under the Program during the same fiscal year.

The unit within Region of Sulawesi and Nusa Tenggara paid to contractor for any transaction related to the Program with PLN budget ("APLN"). Regional Development of Sulawesi ("PRSUL") and Regional Development of Jawa Timur, Bali and Nusa Tenggara ("PRJTBN") who acts as PMU must verifies the eligible expenses for reimbursement with ADB-RBL fund. Based on the approval from PRSUL and PRJTBN, the eligible expenses will be forwarded to Treasury Division. Actual program expenditures are recognized when Treasury Division transfer a certain amount of money from the defined Deposit Account related to ADB-RBL to PLN's account.

As of December 31, 2017, there are no expenditures reimbursed for the Program. As of the date of the issuance of the special-purpose reports, the processes of reimbursement are still on progress.

f. Deposit Account

Prior to submitting the first application to ADB for withdrawal from the Loan Account, the Borrower shall nominate a Deposit Account at a commercial bank acceptable to ADB into which all withdrawals from the Loan Account shall be deposited. The Deposit Account shall be managed and liquidated in accordance with terms and conditions satisfactory to ADB.

The Borrower has made the Deposit Account to deposit all withdrawal of ADB Loan 3560-INO. The Account Number of the Borrower's Deposit Account is 0193.02.000251.30.9 at Bank Rakyat Indonesia. The amount balance as of December 31, 2017 is US$150,003.

3. Financing Disbursement

Advance financing in 2017 has been withdrawn due to loan effectiveness. Details of disbursement according to DLI are as follows:

a. DLI 4

	ADB Finance US$
Balance at beginning of year	--
Additions	48,000
Total	**48,000**

(In thousands of US$, unless otherwise stated)

b. DLI 5

	ADB Finance US$
Balance at beginning of year	--
Additions	48,000
Total	**48,000**

c. DLI 6

	ADB Finance US$
Balance at beginning of year	--
Additions	18,000
Total	**18,000**

d. DLI 7

	ADB Finance US$
Balance at beginning of year	--
Additions	18,000
Total	**18,000**

e. DLI 8

	ADB Finance US$
Balance at beginning of year	--
Additions	18,000
Total	**18,000**

4. Financial Covenant Calculations

As per the loan agreement dated October 10, 2017, the Company is required to satisfy with the self-financing ratio, debt service coverage ratio and debt to equity ratio requirements as part of its compliance with financial covenants stipulated by ADB. Prior to December 31, 2017, ADB granted waiver No. S-817/MK.08/2017 dated November 9, 2017 addressed to the Ministry of Finance of the Republic of Indonesia. The waiver relieves the Borrower from the requirement to comply with the aforementioned financial covenants effective until December 31, 2017.

Financial covenant calculations as of and for the year ended December 31, 2017, are as follows:

i. Self-financing ratio (should be greater than 15%)

	2017	
	in Millions Rp	**US$[3]**
CASH FLOW FROM OPERATING ACTIVITIES[1]		
Operating revenues		
Cash receipts from customers[2]	257,336,702	18,994,442
Government subsidy received[2]	50,595,348	3,734,525
Proceeds from sale of assets not used in operations[2]	45,983	3,394
Net non-operating income		
Financial income[2]	1,066,842	78,745
Subtotal	**309,044,875**	**22,811,106**
ALL EXPENSES RELATED TO OPERATIONS[1]		
1. Total operating expenses[2]	275,474,094	20,333,193
Less non-cash expenses:		
Depreciation[2]	(29,160,597)	(2,152,391)
Amortization[2]	(285,676)	(21,086)
Employee benefit[2]	(1,586,029)	(117,067)
Bad debt expenses[2]	(231,295)	(17,072)
Allowance for inventories[2]	(5,713)	(422)
Income tax paid[2]	5,495,911	405,662
Net Total operating expenses	**249,700,695**	**18,430,817**
2. Debt service requirements		
Interest expense paid[2]	17,894,129	1,320,795
Payment of bonds payable[2]	9,509,500	701,912
Payment of two-step loans[2]	2,588,952	191,095
Payment of Government and non-bank Government financial institution loans[2]	1,043,793	77,044
Payment of bank loans[2]	12,901,106	952,252
Payment of electricity purchase payable[2]	328,199	24,225
Payment of KIK-EBA[2]	149,414	11,028
Payment of lease liabilities[2]	4,429,331	326,936
Total Debt Service Requirement	**48,844,424**	**3,605,287**
3. Decrease in working capital other than cash ending working capital of the year		
Total current assets[2]	93,797,251	6,923,328
Total current liabilities[2]	(139,074,658)	(10,265,328)
Less: Cash and cash equivalents[2]	(42,291,959)	(3,121,639)
	(87,569,366)	(6,463,639)
Beginning Working Capital of the year		
Total current assets[2]	98,569,077	7,275,545
Total current liabilities[2]	(121,623,355)	(8,977,218)
Less: Cash and cash equivalents[2]	(41,909,223)	(3,093,388)
	(64,963,501)	(4,795,061)
Decrease in working capital of the year	**(22,605,865)**	**(1,668,578)**
Cash dividends paid and other cash distributions of surplus[2]	2,153,219	158,933
Subtotal	**278,092,473**	**20,526,459**
NET INTERNAL OF CASH	**30,952,402**	**2,284,647**
Annual average of PLN's capital expenditures incurred, or expected to be incurred:[1]		
Current Year		
Additions in property, plant and equipment and construction in progress[2]	85,210,519	6,289,528
Previous Year		
Additions in property, plant and equipment and construction in progress[2]	55,800,543	4,118,729
Annual average of company's capital expenditures	**70,505,531**	**5,204,129**
Consolidated Self-Financing Ratio[3] (Minimum 15%)	**43.90%**	**43.90%**

ii. Debt Service Coverage Ratio (at least 1.5)

	2017	
	in Millions Rp	**US$[3]**
OPERATING REVENUES[1,2]		
Sales of electricity	246,586,856	18,200,978
Government's electricity subsidy	45,738,215	3,376,012
Customer connection fees	7,113,454	525,056
Others revenues	1,594,933	117,725
Less: Bad debt expenses	(231,295)	(17,072)
TOTAL OPERATING REVENUE	**300,802,163**	**22,202,699**
OPERATING EXPENSES[1,2]		
Total operating expenses	(275,474,094)	(20,333,193)
Less: Non-cash expenses		
Depreciation	29,160,597	2,152,391
Employee benefit	1,586,029	117,067
Bad debt expenses	231,295	17,072
Amortization	285,676	21,086
Allowance for inventory obsolence	5,713	422
TOTAL OPERATING EXPENSES	**(244,204,784)**	**(18,025,155)**
NET OPERATING INCOME	56,597,379	4,177,544
NON OPERATING INCOME[1,2]		
Financial Income	1,066,842	78,745
Other non operating income	3,409,941	251,693
Income taxes	(4,115,955)	(303,805)
NET NON OPERATING INCOME	**360,828**	**26,633**
NET REVENUE	**56,958,207**	**4,204,177**
DEBT SERVICE REQUIREMENT		
Interest paid	17,894,129	1,320,795
Principal repayments	30,950,295	2,284,492
TOTAL DEBT SERVICE REQUIREMENT	**48,844,424**	**3,605,287**
CONSOLIDATED DEBT SERVICE COVERAGE RATIO[1] (MINIMUM 1.5)	**1.17**	**1.17**

iii. Debt to Equity Ratio (Should not be greater than a ratio 75 to 25)

	2017	
	in Millions Rp	**US$[3]**
DEBT[1]		
Two-step loans[2]	34,221,468	2,525,942
Government and non-bank Government financial institution loans[2]	7,352,966	542,734
Lease liabilities[2]	20,585,177	1,519,426
Bank loans[2]	142,566,111	10,523,037
Bonds payable and sukuk ijara[2]	101,354,360	7,481,131
KIK - EBA loans[2]	3,538,586	261,189
Electricity purchase payable[2]	7,376,402	544,464
TOTAL DEBT	**316,995,070**	**23,397,923**
EQUITY[1,2]	**869,416,604**	**64,173,059**
CONSOLIDATED DEBT TO EQUITY RATIO[1] (MAXIMUM 3 TIMES)	**0.36**	**0.36**

Notes:
1). As defined in the ADB LOAN 3560-INO: Sustainable Energy Access in Eastern Indonesia – Electricity Grid Development Program Loan Facility Agreement dated October 10, 2017.
2). As derived from audited consolidated financial statements of the Company and subsidiaries as of and for the year ended December 31, 2017.
3). Translated using Bank Indonesia middle rate as of December 31, 2017.

PERUSAHAAN PERSEROAN (PERSERO)
PT PERUSAHAAN LISTRIK NEGARA

Auditors' Comments
ADB Loan 3560-INO: Sustainable Energy Access in Eastern Indonesia – Electricity Grid Development Program
For the Year Ended December 31, 2017

PERUSAHAAN PERSEROAN (PERSERO) PT PERUSAHAAN LISTRIK NEGARA
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1. Objectives and Scope of Audit

The objectives and scope of our audit are to provide an opinion on the Special-Purpose Statements of Program Expenditures and Financing of the Asian Development Bank ("ADB") Loan 3560-INO: Sustainable Energy Access in Eastern Indonesia - Electricity Grid Development Program (the "special-purpose reports") of Perusahaan Perseroan (Persero) PT Perusahaan Listrik Negara (the "Company" or the "Borrower") as of and for the year ended December 31, 2017 that the special-purpose reports were prepared, in all material respects, in accordance with the basis of accounting described in Note 2 of the special-purpose reports for the purpose of complying with section 4.02 of Loan Agreement of ADB Loan 3560-INO between ADB and the Company.

The annual plan program financed and percentage of actual/planned financed presented in the special-purpose reports were not audited by us, and accordingly, we do not express an opinion on them. However, the plan financed by ADB for the year ended December 31, 2017 has been agreed to DLI matrix in the Loan Agreement No. 3560-INO between the Borrower and Asian Development Bank ("ADB").

Further assessment of adequacy on accounting and internal control structures with respect to the program expenditures and other financial transactions also includes determinations whether the Company has maintained adequate documentation on all relevant transactions of the program, whether expenditures submitted to ADB are eligible for financing and identification of any ineligible expenditures, and compliance to its loan covenants.

2. Internal Control Structure

a. Project Organizational Structure

The Company has established an organizational structure to manage the loan operations and funds by issuing the Decision Letter of the Company's Board of Directors No. 0042.K/DIR/2018 dated March 21, 2018. Based on the letter, the Company appointed the Head of Regional Development of Sulawesi ("PRSUL"), the Head of Regional Development of Jawa Bagian Timur, Bali, and Nusa Tenggara ("PRJTBN") and Head of the Corporate Strategic Planning Division ("DIV-RKO") as the Project Management Unit ("PMU") while Wilayah Sulawesi Utara, Tengah and Gorontalo; Wilayah Sulawesi Selatan, Tenggara and Barat; Wilayah Nusa Tenggara Timur; and Wilayah Nusa Tenggara Barat were appointed as Project Implementation Unit ("PIU"). Both the PMU and PIU have the authority to establish sub-teams as necessary.

b. Procurement of Goods and Services

Based on Program Implementation Document ("PID"), ADB should accept the conditions when deciding to use the Result Based Lending ("RBL") modality because the RBL policy stated that implementation relies on country systems instead of ADB's Procurement Guidelines. Procurement for the program will include equipment for transmission and distribution networks, civil works, and installation services. PLN will use a variety of procurement methods, including open competitive bidding, framework contracts, and direct contracting through open book.

The Borrower shall ensure that each contract under the Program is awarded on the basis of the Program's procurement system, having due regard for principles of competition, economy and efficiency, transparency and fairness and equal opportunity. The Borrower shall ensure that all Program Actions in the area of procurement are implemented in a timely and efficient manner.

c. Project Budgeting and Monitoring

PLN has clearly defined budgeting procedures. PLN's annual budget is determined by the head office based on the proposals submitted by the units, which also formulate multi-year investment programs. PLN's annual work plan and budget ("RKAP") is approved by the shareholders in a General Meeting of Shareholders ("RUPS") represented by the Ministry of State-Owned Enterprises.

(in thousands of US$, unless otherwise stated)

d. Payment Verification
The Company adopted Company's policies and procedures to verify the validity of expenditures.

e. Disbursements and Fund Flows
As a controlling mechanism, the Company adopted ADB's policies and procedures for disbursements and flow of funds. All disbursements and flow of funds from ADB have to be supported with a Withdrawal Authorization ("WA") from ADB. Prior to obtaining the WA from ADB, the Company should have prepared the withdrawal applications together with its supporting documents such as quarterly or annual progress reports that should be approved by an authorized party. The Company's policies and procedures for disbursements and flow of funds also cover the expenditures which are financed by the Company itself.

f. Revenues and Collections
There were no project activities related to the project revenues.

g. Financial and Project Accounting
The Company has assigned each of the Distribution Unit's accounting divisions to maintain the fund utilization related to the projects under management. In addition, the Company also assigned personnel from PLN's Head Office to review whether the fund utilization has been properly accounted for.

h. Compliance with Loan Covenants
As per the loan agreement dated October 10, 2017, the Company is required to satisfy with the self-financing ratio, debt service coverage ratio and debt to equity ratio requirements as part of its compliance with financial covenants stipulated by ADB. Prior to December 31, 2017, ADB granted waiver No. S-817/MK.08/2017 dated November 9, 2017 addressed to the Ministry of Finance of the Republic of Indonesia. The waiver relieves the Company from the requirement to comply with the aforementioned financial covenants effective until December 31, 2017.

3. Use of Proceeds

The borrower shall cause the proceeds of the Loan to be applied to the financing of expenditures on the Program in accordance with the provisions in the Loan Agreement. The proceeds of the Loan shall be allocated and withdrawn in accordance with the provisions of Schedule 3 to the Loan Agreement. The Loan Closing Date for the purposes of Section 9.02 of the Loan Agreement shall be June 30, 2022 or such other date as may from time to time be agreed between the Borrower and ADB.

4. Achievement of Financial Targets and its Constraints

a. Achievement of Financial Targets
Achievement of financial targets in 2017 was as follows:

Financing	Plan (Unaudited) US$	Actual US$	Percentage (Unaudited) %
Advance financing	150,000	150,000	100.00%
2017	108,000	--	0.00%
Total	**258,000**	**150,000**	**58.14%**

b. Constraints on Achievement of Financial Targets

As of December 31, 2017, the Company only achieved 58.14% of the total planned program expenditure. Advance financing amounting to US$150,000 has been withdrawn due to loan effectiveness. 2017's targets for DLI achievement were not achieved at all as planned by the end of December 31, 2017, due to verification process of DLI for the year 2017 achievement by Independent Verification Agency ("IVA"). Until completion date of these special-purpose reports, the verification processes are still in progress.

5. The Effects of the Audit Finding on the Auditors' Opinion

As stated in the auditors' opinion dated May 25, 2018, the special purpose reports as of and for the year ended December 31, 2017, were prepared, in all material respects, in accordance with the basis of accounting stated in Note 2 of the special-purpose reports.

The Company complied, in all material respects, with the financial covenants of the ADB Loan 3560-INO: Sustainable Energy Access in Eastern Indonesia - Electricity Grid Development Program for the year ended December 31, 2017.

As discussed in note 4 of these special-purpose statements of program expenditures and financing, the Company obtained a waiver on November 9, 2017 whereby ADB agreed to waive the financial covenants requirement relating to i) debt service coverage ratio, ii) self-financing ratio, and iii) debt equity ratio, for the year ended December 31, 2017. Our opinion is not modified in the respect of this matter.

Our examination does not provide a legal determination on the Company's compliance with specified requirements.